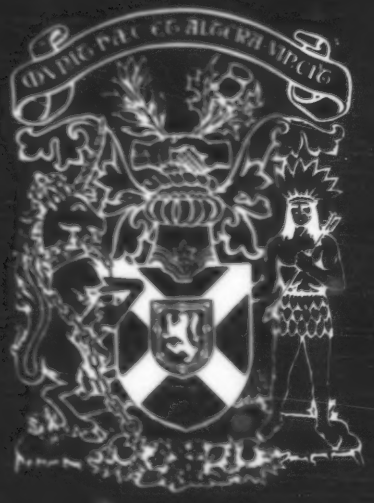
# NOVA SCOTIA MUNICIPAL FINANCE CORPORATION



*ANNUAL REPORT For the Year ended December 31, 1987*

92-00590/

# CONTENTS

How the Corporation Functions . . . . . 2

Directors and Officers . . . . . 3

Directors' Report . . . . . 4, 5, 6, 7

**FINANCIAL STATEMENTS**

Statement of Financial Position . . . . . 8, 9

Statement of Revenue, Expenditure, and Reserve Fund . . . . . 10

Statement of Changes in Financial Position . . . . . 11

Auditors' Report . . . . . 12

Notes to Financial Statements . . . . . 13, 14, 15, 16

# *HOW THE CORPORATION FUNCTIONS*

**AUTHORITY**

The Nova Scotia Municipal Finance Corporation was established by an Act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 5 of the Acts of 1978–79.

**PURPOSE**

The Corporation's function is to provide financing of the capital requirements of municipalities, school boards and hospitals by the issuance of its securities, and relending the funds to municipal units and boards.

All municipalities and school boards must finance, and hospitals may finance their capital requirements through the Corporation, except for interim financing and certain projects for which funds may be borrowed from the Government of Canada, the Province or other municipalities within the Province.

**ADMINISTRATION**

The affairs of the Corporation are managed by a Board of Directors appointed by the Governor in Council. Forty percent of the members are appointed upon the recommendation of the Union of Nova Scotia Municipalities.

The administrative budget approved by the Minister of Municipal Affairs shall be cost-shared by the Province to the extent of one-half, or such larger proportion as the Governor in Council may prescribe in any year. The remainder of the approved administrative expenses is to be paid by municipalities on the basis of taxable assessments.

Support staff and resources of the Provincial Departments of Attorney General, Finance and Municipal Affairs have been provided to the Corporation.

| | |
|---|---|
| The Corporation office is located at: | 1701 Hollis Street<br>Suite 302<br>Halifax, Nova Scotia |
| The mailing address is: | P.O. Box 850<br>Station M<br>Halifax, Nova Scotia<br>B3J 2V8 |
| The telephone number is: | (902) 424-4590 |

# *DIRECTORS AND OFFICERS*

## DIRECTORS OF THE CORPORATION

| | |
|---|---|
| Richard S. Brookfield, F.C.A. | Chairman and Chief Executive Officer |
| Edgar G. Cramm, M.P.A. | Director, Finance and Advisory Services<br>Department of Municipal Affairs |
| Douglas McC. Carter | Mayor of Truro, Nova Scotia |
| R. Wendell Phinney | Mayor of Kentville, Nova Scotia |
| Harold A. Renouf, O.C., F.C.A. | Business Consultant, Halifax, Nova Scotia |

## OFFICERS OF THE CORPORATION

| | |
|---|---|
| Secretary | R. Mark Gilbert, M.B.A.<br>Municipal Advisor<br>Department of Municipal Affairs |
| Treasurer | Shirley L. Carras, C.A. |
| General Counsel | James G. Spurr<br>Financial Counsel<br>Department of the Attorney General |
| Assistant Treasurer | Richard W. McAloney, C.A.<br>Manager of Trusts and Finance<br>Department of Finance |

# *DIRECTORS' REPORT*

## MARKET CONDITIONS

Many factors had an impact on interest rates during 1987. The major factor was the steady decline of the U.S. dollar compared to other currencies. The U.S. dollar depreciated from 159.31 yen early in January to 128.25 yen by mid December. Other major areas of concern were rising oil prices in the first half of the year and a continued U.S. budget and U.S. trade imbalance during the latter half of the year.

Interest rates from January until early April were the lowest since the Corporation commenced operations in 1980. Rates began to rise reaching their peak in mid-October. The stock market crash on October 19th was followed by a rate reduction of approximately one hundred basis points.

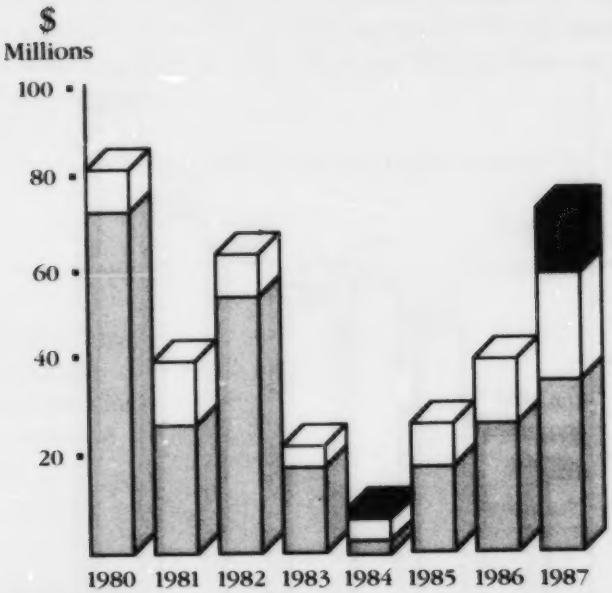
## LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS

During the year fifty-one individual long-term loans were made to twenty municipal units, thirteen school boards and five hospitals totalling $69,869,407. The following details the use of these loans:

| | Projects Administered by Departments of | | |
|---|---|---|---|
| | Municipal Affairs | Education | Health & Fitness |
| Schools | $ | $28,087,753 | $ |
| Hospitals | | | 10,061,054 |
| Water | 2,171,000 | | |
| Sewer | 1,680,900 | | |
| Streets | 5,073,900 | | |
| Buildings | 9,158,000 | | |
| Land | 344,200 | | |
| Electrical Systems | 441,000 | | |
| Equipment | 495,800 | | |
| Recreation | 876,000 | | |
| Solid Waste | 5,030,900 | | |
| Sewage Treatment | 2,133,000 | | |
| Transit | 4,315,900 | | |
| | $31,720,600 | $28,087,753 | $10,061,054 |
| Number of Loans | 23 | 23 | 5 |

The following chart shows the long-term loans made in each year since the Corporation commenced operations in 1980.

## *LONG TERM LOANS MADE DURING YEAR*

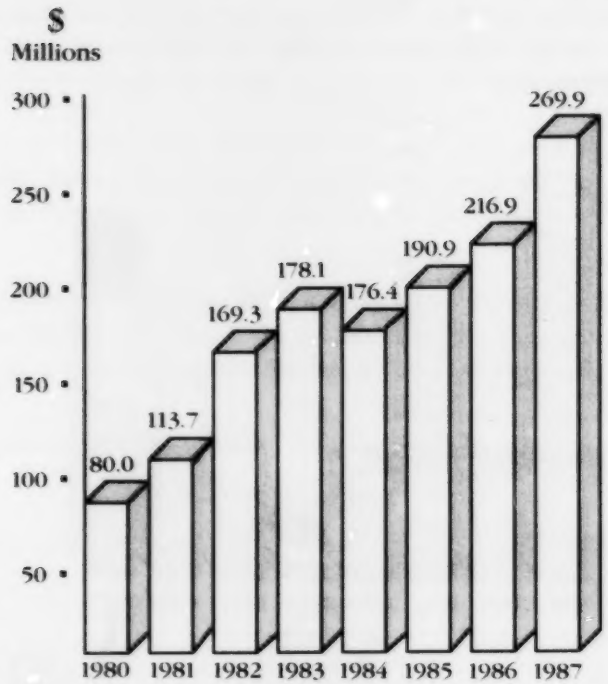



| | 1980 | 1981 | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 |
|---|---|---|---|---|---|---|---|---|
| Municipal | 74.1 | 29.9 | 51.7 | 17.6 | 2.1 | 15.8 | 26.9 | 31.7 |
| School Boards | 5.5 | 8.6 | 10.0 | 2.2 | 8.3 | 12.2 | 13.0 | 28.1 |
| Hospitals | — | — | — | — | .4 | — | — | 10.1 |
| | 79.6 | 38.5 | 61.7 | 19.8 | 10.8 | 28.0 | 39.9 | 69.9 |

Note: The amount of debentures issued during the year approximates the long-term loans made.

The accumulated loans to municipal units, school boards and hospitals at the end of each year are shown in the following chart.

*LOANS TO MUNICIPAL UNITS, SCHOOL BOARDS AND HOSPITALS AS AT DECEMBER 31*




Note: The amount of debentures outstanding at the end of each year approximates the loans outstanding.

## BORROWING PROGRAM

Funds for the 1987 loans were raised through two issues in the domestic Canadian market totalling $69,600,000. In May $35.0 million was raised by a ten year private serial issue. During December a further $34.6 million of public ten year serials was issued. These debentures had interest rate coupons ranging from 7¼% to 10¾%.

## TRUST FUNDS UNDER ADMINISTRATION

The Corporation administers two Sinking Funds on behalf of municipal units and school boards. The first relates to loans of $35,000,000 to ten units maturing on December 22, 1996. The second fund related to seven loans totalling $10,000,000, of which one loan of $199,000 matured on July 12, 1987 and the balance will mature on July 12, 1992. These two Sinking Funds are to be applied to the repayment of these loans at maturity.

Following is a summary of the Sinking Funds for the year ended December 31, 1987.

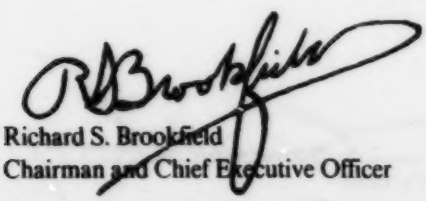
| | Trust #1 | Trust #2 |
|---|---|---|
| Balance at January 1, 1987, as restated | $7,064,585 | $3,192,426 |
| Amount paid on maturity of loan | | (212,009) |
| Amounts paid to Nova Scotia Municipal Finance Corporation | (68,402) | |
| Sinking fund payments received | 1,050,000 | 620,099 |
| Income earned in 1987 | 867,449 | 392,901 |
| Balance at December 31, 1987 | $8,913,632 | $3,993,417 |

## COST OF ADMINISTRATION

The Province of Nova Scotia in 1987 continued its previous practice of assuming all of the administrative expenses of the Corporation.

## ACKNOWLEDGEMENTS

The Board of Directors wishes to express its appreciation for the continuing financial assistance provided by the Provincial Government. Special mention should be made of the excellent co-operation received from the Departments of the Attorney General, Education, Finance, Health & Fitness and Municipal Affairs. Each of these Departments has contributed the services of staff members which have been of great assistance to the Corporation.



Richard S. Brookfield
Chairman and Chief Executive Officer

# *STATEMENT OF FINANCIAL POSITION*

*AS AT DECEMBER 31, 1987*

**ASSETS**

| | 1987 | 1986 (As restated Note 2) |
|---|---|---|
| CURRENT ASSETS | | |
| Cash | $ 12,743 | $ 33,495 |
| Short-term investments, at cost which approximates market value | 3,725,000 | 3,356,000 |
| Accrued interest receivable | 6,010,570 | 5,990,217 |
| Principal due within one year on loans to municipal units | 23,788,049 | 17,093,190 |
| | 33,536,362 | 26,472,902 |
| LONG-TERM ASSETS | | |
| Loans to municipal units (note 1) | 269,484,218 | 216,907,000 |
| Less principal included in current assets | 23,788,049 | 17,093,190 |
| | 245,696,169 | 199,813,810 |
| DEFERRED CHARGES | | |
| Discount on debenture debt | 1,258,904 | 1,257,642 |
| Less accumulated amortization | 802,772 | 713,701 |
| | 456,132 | 543,941 |
| | $279,688,663 | $226,830,653 |
| TRUST FUND ASSETS (note 2) | $ 12,907,049 | $ 10,257,010 |

Approved by the Board

Director

Director

## LIABILITIES AND EQUITY

| | 1987 | 1986 (As restated Note 2) |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 91,368 | $ 176,045 |
| Accrued interest payable | 6,662,092 | 6,704,126 |
| Principal due within one year on debenture debt | 23,503,000 | 16,912,000 |
| | 30,256,460 | 23,792,171 |
| **LONG-TERM DEBT** | | |
| Debenture debt (note 3) | 269,543,000 | 216,855,000 |
| Less principal included in current liabilities | 23,503,000 | 16,912,000 |
| | 246,040,000 | 199,943,000 |
| **DEFERRED CREDITS** | | |
| Discount on loans to municipal units | 1,261,795 | 1,261,760 |
| Less accumulated amortization | 821,797 | 739,636 |
| | 439,998 | 522,124 |
| **EQUITY** | | |
| Reserve Fund | 2,952,205 | 2,573,358 |
| | $279,688,663 | $226,830,653 |
| **TRUST FUNDS UNDER ADMINISTRATION** (note 2) | $ 12,907,049 | $ 10,257,010 |

# *STATEMENT OF REVENUE, EXPENDITURE AND RESERVE FUND*

*YEAR ENDED DECEMBER 31, 1987*

| | 1987 | 1986 |
|---|---|---|
| REVENUE | | |
| Interest on loans to municipal units | $ 28,596,068 | $ 25,983,828 |
| Amortization of discount on loans to municipal units | 85,365 | 102,658 |
| Interest on short-term investments | 242,684 | 207,550 |
| Current discount on loans to municipal units | 606,161 | 376,416 |
| Gain on sale of securities | — | 13,854 |
| Grant, Province of Nova Scotia for administrative expenses | 198,267 | 206,882 |
| | 29,728,545 | 26,891,188 |
| EXPENDITURE | | |
| Interest on debenture debt and short-term loans | 28,651,544 | 25,983,732 |
| Amortization of discount on debenture debt | 89,070 | 104,510 |
| Interest on bank loan | 1,185 | 12,388 |
| Debenture issue expenses | 409,632 | 274,054 |
| Administrative expenses (note 4) | 198,267 | 206,882 |
| | 29,349,698 | 26,581,566 |
| NET REVENUE, BEING AN INCREASE IN RESERVE FUND | 378,847 | 309,622 |
| RESERVE FUND AT BEGINNING OF YEAR | 2,573,358 | 2,263,736 |
| RESERVE FUND AT END OF YEAR | $ 2,952,205 | $ 2,573,358 |

# *STATEMENT OF CHANGES IN FINANCIAL POSITION*

*YEAR ENDED DECEMBER 31, 1987*

| | 1987 | 1986 |
|---|---|---|
| CASH DERIVED FROM | | |
| Net revenue being an increase in Reserve Fund | $ 378,847 | $ 309,622 |
| Add (deduct) items not involving cash | | |
| Amortization of discount on loans to municipal units | (85,365) | (102,658) |
| Amortization of discount on debenture debt | 89,070 | 104,510 |
| Gain on sale of securities | — | (13,854) |
| | 382,552 | 297,620 |
| Issue of debentures of $69,600,000 net of discounts of $1,261 (1986, $39,800,000 net of $95,465) | 69,598,739 | 39,704,535 |
| Principal received on loans to municipal units | 17,093,190 | 13,730,396 |
| Proceeds on sale of securities | — | 196,410 |
| Payout of sinking fund loan | 199,000 | — |
| Change in non-cash working capital | — | 547,824 |
| | 87,273,481 | 54,476,785 |
| CASH APPLIED TO | | |
| Loans of $69,869,408 to municipal units on security of debentures, net of discounts of $3,239 (1986, $39,896,531 net of $95,784) | 69,866,169 | 39,800,747 |
| Principal payments on debenture debt | 16,912,000 | 13,496,000 |
| Change in non-cash working capital | 147,064 | — |
| | 86,925,233 | 53,296,747 |
| INCREASE IN CASH POSITION | 348,248 | 1,180,038 |
| Cash position at beginning of year | 3,389,495 | 2,209,457 |
| CASH POSITION AT END OF YEAR | $ 3,737,743 | $ 3,389,495 |

Cash position is defined as cash plus short-term investments less short-term bank indebtedness.

# *AUDITORS' REPORT*

To the Chairman and Members of the Board of Directors
Nova Scotia Municipal Finance Corporation

We have examined the statement of financial position of the Nova Scotia Municipal Finance Corporation as at December 31, 1987 and the statements of revenue, expenditure and reserve fund and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Corporation as at December 31, 1987 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of amortizing certain bond discounts in the Trust Fund Assets and Trust Funds under Administration, as explained in note 2 to the financial statements, on a basis consistent with that of the preceding year.

Halifax, Nova Scotia
February 19, 1988

Thorne Ernst & Whinney
Chartered Accountants

# *NOTES TO FINANCIAL STATEMENTS*

*YEAR ENDED DECEMBER 31, 1987*

## GENERAL

Created by the Municipal Finance Corporation Act, which was proclaimed on July 31, 1979, the Corporation began operations on January 1, 1980 and its fiscal year-end is December 31. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises and hospitals through a central borrowing authority.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Discounts on long-term debt and loans to municipal units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

(b) The Reserve Fund was created from interest earnings on funds which had been advanced by the Province of Nova Scotia and have since been repaid and interest on other surplus monies available from time to time, as well as from discounts on loans to municipal units. The purpose of the Reserve Fund is to cover time lags between the payment dates of the Corporation's obligations and the dates payments are received from municipal units, to provide interest rate stabilization, and to cover differentials in interest and amortization of discounts in loan operations.

## 1. LOANS TO MUNICIPAL UNITS

(a) Loans to municipal units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Provisions exist for the recovery of any defaults by municipalities, therefore an allowance for doubtful accounts is not required.

(b) Principal payments receivable in each of the next five years are:

| | |
|---|---|
| 1988 | $23,788,049 |
| 1989 | 23,265,851 |
| 1990 | 23,330,176 |
| 1991 | 22,878,087 |
| 1992 | 32,037,480 |

## 2. TRUST FUNDS UNDER ADMINISTRATION

Trust Fund Assets totalling $12,907,049 (1986, $10,257,010) are held on behalf of certain municipal units and school boards, and represent sinking funds to be applied to the repayment of their related outstanding debenture debt at maturity.

During the 1987 year the Corporation retroactively changed its accounting policy regarding the amortization of discounts on deep discount bonds from the straight-line method to the effective yield method. The total discount to be recognized will not change as a result of this change in method, however, the timing of the revenue recognition will change. This change in accounting policy results in a decrease in the 1986 Trust Fund Assets and Trust Funds under Administration of $421,703.

## 3. DEBENTURE DEBT

(a) The debenture debt outstanding at December 31, 1987 is in Canadian funds and is fully guaranteed by the Province of Nova Scotia.

| Series | Date Issued | Maturity Date | Interest Rate | 1987 | 1986 |
|---|---|---|---|---|---|
| A | Jan. 4/80 | 1981 to 2000 | 11.250 | $ 16,250,000 | $ 17,500,000 |
| B | July 2/80 | 1981 to 1990 | 11.500 | 2,400,000 | 3,200,000 |
| B | July 2/80 | 1991 to 2000 | 12.000 | 7,000,000 | 7,000,000 |
| C | Dec. 19/80 | 1981 to 2000 | 13.375 | 16,250,000 | 17,500,000 |
| D | Dec. 19/80 | 1981 to 2000 | 13.375 | 6,500,000 | 7,000,000 |
| E | Sept. 10/81 | 1982 to 1991 | 17.500 | 2,078,000 | 2,420,000 |
| F | Dec. 22/81 | 1996 | 15.000 | 35,000,000 | 35,000,000 |
| G | Jan. 28/82 | 1983 to 1994 | 15.750 | 14,500,000 | 16,600,000 |
| H | July 12/82 | 1992 | 15.500 | 10,000,000 | 10,000,000 |
| J | Nov. 23/82 | 1983 to 1987 | 12.750 | — | 2,330,000 |
| J | Nov. 23/82 | 1988 to 1992 | 13.000 | 10,600,000 | 10,600,000 |
| K | Sept. 7/83 | 1986 to 1988 | 11.250 | 1,500,000 | 3,000,000 |
| K | Sept. 7/83 | 1989 to 1990 | 11.750 | 2,600,000 | 2,600,000 |
| K | Sept. 7/83 | 1991 to 1993 | 12.250 | 3,800,000 | 3,800,000 |
| K | Sept. 7/83 | 1994 to 1998 | 12.750 | 3,500,000 | 3,500,000 |
| L | Nov. 9/83 | 1984 to 1988 | 11.250 | 210,000 | 420,000 |
| L | Nov. 9/83 | 1989 to 1993 | 12.000 | 1,050,000 | 1,050,000 |
| M | Aug. 28/84 | 1985 to 1988 | 13.750 | 1,000,000 | 2,000,000 |
| M | Aug. 28/84 | 1989 to 1992 | 14.000 | 4,000,000 | 4,000,000 |
| M | Aug. 28/84 | 1993 to 1999 | 14.250 | 2,500,000 | 2,500,000 |
| N | Apr. 2/85 | 1987 to 1988 | 11.250 | 1,215,000 | 2,430,000 |
| N | Apr. 2/85 | 1989 | 11.500 | 1,215,000 | 1,215,000 |
| N | Apr. 2/85 | 1990 to 1994 | 11.750 | 4,855,000 | 4,855,000 |
| N | Apr. 2/85 | 1995 to 1996 | 12.000 | 1,390,000 | 1,390,000 |
| N | Apr. 2/85 | 1997 to 2000 | 12.250 | 1,865,000 | 1,865,000 |
| N | Apr. 2/85 | 2001 to 2004 | 12.375 | 1,640,000 | 1,640,000 |
| N | Apr. 2/85 | 2005 | 12.500 | 1,290,000 | 1,290,000 |
| Balance carry forward | | | | 154,208,000 | 166,705,000 |

## 3. DEBENTURE DEBT (continued)

| Series | Date Issued | Maturity Date | Interest Rate | 1987 | 1986 |
|---|---|---|---|---|---|
| Balance carry forward | | | | $154,208,000 | $166,705,000 |
| P | Dec. 11/85 | 1987 | 9.500 | — | 1,050,000 |
| P | Dec. 11/85 | 1988 | 9.750 | 1,050,000 | 1,050,000 |
| P | Dec. 11/85 | 1989 | 10.000 | 750,000 | 750,000 |
| P | Dec. 11/85 | 1990 to 1992 | 10.250 | 2,050,000 | 2,050,000 |
| P | Dec. 11/85 | 1993 to 1994 | 10.500 | 1,300,000 | 1,300,000 |
| P | Dec. 11/85 | 1995 to 1997 | 10.750 | 1,650,000 | 1,650,000 |
| P | Dec. 11/85 | 1998 to 2000 | 11.000 | 2,500,000 | 2,500,000 |
| Q | July 22/86 | 1987 to 1988 | 9.250 | 2,210,000 | 4,420,000 |
| Q | July 22/86 | 1989 to 1990 | 9.500 | 4,422,000 | 4,422,000 |
| Q | July 22/86 | 1991 to 1995 | 9.750 | 11,066,000 | 11,066,000 |
| Q | July 22/86 | 1996 | 10.000 | 6,292,000 | 6,292,000 |
| R | Nov. 5/86 | 1987 | 9.250 | — | 1,155,000 |
| R | Nov. 5/86 | 1988 to 1989 | 9.500 | 2,310,000 | 2,310,000 |
| R | Nov. 5/86 | 1990 to 1992 | 9.750 | 3,464,000 | 3,464,000 |
| R | Nov. 5/86 | 1993 to 1996 | 10.000 | 6,671,000 | 6,671,000 |
| S | May 14/87 | 1988 | 7.250 | 3,373,000 | — |
| S | May 14/87 | 1989 | 7.625 | 3,374,000 | — |
| S | May 14/87 | 1990 | 7.750 | 3,375,000 | — |
| S | May 14/87 | 1991 | 8.000 | 3,376,000 | — |
| S | May 14/87 | 1992 | 8.125 | 3,377,000 | — |
| S | May 14/87 | 1993 | 8.250 | 3,283,000 | — |
| S | May 14/87 | 1994 | 8.375 | 3,284,000 | — |
| S | May 14/87 | 1995 to 1996 | 8.500 | 6,571,000 | — |
| S | May 14/87 | 1997 | 8.750 | 4,987,000 | — |
| T | Dec. 15/87 | 1988 | 9.000 | 3,369,000 | — |
| T | Dec. 15/87 | 1989 | 9.500 | 3,369,000 | — |
| T | Dec. 15/87 | 1990 | 9.750 | 3,369,000 | — |
| T | Dec. 15/87 | 1991 | 10.250 | 3,368,000 | — |
| T | Dec. 15/87 | 1992 to 1993 | 10.375 | 6,500,000 | — |
| T | Dec. 15/87 | 1994 to 1995 | 10.500 | 6,263,000 | — |
| T | Dec. 15/87 | 1996 to 1997 | 10.750 | 8,362,000 | — |
| | | | | $269,543,000 | $216,855,000 |

Interest is payable semi-annually.

(b) Principal payments due in each of the next five years are as follows:

| | |
|---|---|
| 1988 | $23,503,000 |
| 1989 | 23,076,000 |
| 1990 | 23,159,000 |
| 1991 | 22,752,000 |
| 1992 | 32,101,000 |

## 4. ADMINISTRATIVE EXPENSES

| | 1987 | 1986 |
|---|---|---|
| Salaries and benefits | $151,157 | $177,786 |
| Travel | 4,034 | 3,722 |
| Equipment and maintenance | 17,329 | 946 |
| *Printing* | 1,940 | 1,529 |
| Postage | 1,355 | 1,148 |
| Telephone | 3,135 | 2,730 |
| Stationery and supplies | 1,557 | 1,399 |
| Professional services | 8,000 | 7,995 |
| Bank charges | 2,471 | 2,229 |
| Directors' fees and expenses | 2,694 | 2,777 |
| Other | 4,595 | 4,621 |
| | $198,267 | $206,882 |

## 5. INCOME TAXES

The Corporation is not subject to Provincial or Federal Income Taxes.

## 6. COMPARATIVE FIGURES

The 1986 balance of the Trust Fund Assets and Trust Funds under Administration has been restated due to the retroactive application of a change in accounting policy regarding amortization of bond discounts. (See note 2)